

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SAM-01 EURE-00 USIE-00 SSO-00 NSCE-00

INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20 NIC-01

AGR-20 SWF-02 SAJ-01 CU-04 DRC-01 AID-20 EB-11

CIEP-02 TRSE-00 STR-08 OMB-01 CEA-02 COME-00 FRB-02

XMB-07 OPIC-12 LAB-06 SIL-01 FEA-02 NEA-10 /199 W

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O 291655Z MAR 74

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 8526

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 2051

E.O. 11652: GDS

TAGS: PINT, PFOR, ECON, SP

SUBJ: QUARTERLY TRENDS REPORT: SPAIN

REF: LETTER TO AMBASSADOR RIVERO FROM ASSISTANT SECRETARY
STOESSEL, DEC 4, 1973; STATE 054857

1. INTERNAL POLITICAL

A. CARRERO BLANCO'S ASSASSINATION AND HIS REPLACEMENT
AS HEAD OF GOVERNMENT BY EX-INTERIOR MINISTER CARLOS ARIAS
NAVARRO IN JANUARY, ALTHOUGH MAJOR POLITICAL UPHEAVALS, HAVE
SO FAR HAD LITTLE IMPACT ON CLIMATE OF PUBLIC ORDER OR ON
COUNTRY'S POLITICAL STRUCTURE. RELATIVE SMOOTHNESS AND
TRANQUILITY OF CHANGEOVER WIDELY SEEN HERE AS SIGN THAT
SPAIN HAS DEVELOPED SOLID INSTITUTIONS AND POLITICAL MATURITY
THAT WILL ENSURE CONTINUED STABILITY AFTER FRANCO'S PASSING.
WHILE UNTRAUMATIC CHANGES IN GOVERNMENT LEADERSHIP AUGURS
WELL FOR SUCCESSFUL TRANSITION FROM BLANCO TO JUAN CARLOS
AS HEAD OF STATE, PRESUMED "POLITICAL MATURITY" REFLECTS
IN LARGE PART POLITICAL APATHY OF GENERAL POPULACE WHICH
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HAS BEEN ENJOYING MATERIAL BENEFITS OF ECONOMIC

EXPANSION AND WHICH STILL HAS FEW INCENTIVES FOR DIRECT POLITICAL PARTICIPATION. KEY QUESTION IS WHETHER THIS FORM OF STABILITY CAN PERSIST AS ECONOMIC SITUATION FORCES UP COST OF LIVING AND UNEMPLOYMENT.

B. RHETORIC OF NEW GOVERNMENT, CULMINATING IN PRESIDENT ARIAS' FEBRUARY 12 SPEECH TO CORTES, HAS EMPHASIZED PUBLIC ORDER, INCLUDING POLICE IMPROVEMENTS, AND ACCELERATION OF PROGRAM OF POLITICAL PARTICIPATION WHICH CARRERO BLANCO WAS CONTEMPLATING. INCONGRUITY OF THIS COMBINATION, WHICH MIRRORS SPAIN'S ENDURING IDEOLOGICAL DIVISIONS, STEMS FROM GOVERNMENT'S EFFORT TO RESPOND IN SOME WAY TO YEARNINGS FOR POLITICAL CHANGE AMONG SOME SECTORS WHILE REASSURING CONSERVATIVE AND TRADITIONALIST FORCES THAT REGIME'S FUNDAMENTAL AUTHORITY WILL NOT BE IMPAIRED. GOVERNMENT'S ACTION AT THIS STILL EARLY STAGE SUGGEST THAT ASSERTION OF AUTHORITY TO ASSURE SECURITY RETAINS PRIORITY OVER LIBERALIZATION. GOVERNMENT'S OVERREACTION TO BISHOP ANOVEROS' DEFENSE OF BASQUE MINORITY RIGHTS, AND TO SOME EXTENT ITS DECISION TO EXECUTE CATALAN ANARCHIST ASSASSIN PUIG ANTICH, DISPELLED SOME OF EUPHORIA WHICH ACCOMPANIED FEB 12 SPEECH ABOUT NEW GOVERNMENT'S COMMITMENT TO LIBERALIZATION AND BROUGHT ON FIRST SERIOUS DIVISIONS BETWEEN MODERATE AND CONSERVATIVE MEMBERS OF ARIAS' GOVERNING TEAM.

C. GOVERNMENT INITIALLY REDUCED CENSORSHIP OF MEDIA AS LIBERALIZING STEP BUT, TO MODERATES' DISMAY, HAS RETIGHTENED PRESS CONTROLS SINCE CONFRONTATION WITH CHURCH OVER ANOVEROS STATEMENT. SIMILARLY, IN DEALING WITH RISING LABOR CONFLICTS STIMULATED BY INFLATION, GOVERNMENT HAS PROFESSED GREATER TOLERANCE FOR LABOR PROTEST BUT HAS SHOWN GREATER RIGIDITY IN CONFRONTING IT.

D. ARIAS AND HIS CABINET, SPAIN'S FIRST "POST-FRANCO" GOVERNMENT, INHERITED CONSIDERABLE UNFINISHED BUSINESS FROM SHORT-LIVED GOVERNMENT OF CARRERO BLANCO. IT NOW FACES DEMANDING PROGRAM OF REFORM OF KEY INSTITUTIONS, INCLUDING ORGANIC LAWS FOR DEFENSE, JUDICIARY, LOCAL GOVERNMENT AND ACTION ON SYNDICAL RESTRUCTURING, POLITICAL ASSOCIATIONS, UNIVERSITIES AND RELATIONS WITH CHURCH. AT SAME TIME, WITH FRANCO NOW MOSTLY WITHDRAWN FROM DAY-TO-DAY AFFAIRS OF GOVERNMENT ARIAS AND CABINET STILL IN STAGE OF DEVELOPING POLITICAL CONFIDENCE AND EXPERIENCE AND ARE FACED WITH

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INCREASINGLY ASSERTIVE INTEREST GROUPS WITHIN AND OUTSIDE GOVERNMENT ON MAJOR ISSUES.

2. FOREIGN RELATIONS

A. WHILE NEW GOVERNMENT CONTINUES TO PRESS FOR EARLY REVISION OF ASSOCIATION AGREEMENT WITH EEC, IT NOW FAIRLY CLEAR FROM OFFICIAL STATEMENTS, AS WELL AS FROM SCANT CONCERN FOR EUROPEAN FEELINGS SHOWN IN ANOVEROS AND PUIG

CASES, THAT ARIAS ADMINISTRATION GIVES LINKS WITH EUROPE
LOWER PRIORITY THAN DID TWO PREVIOUS GOVERNMENTS. THIS
ATTITUDE SHAPED BY GROWING BITTERNESS AT EUROPE'S
REPEATED REBUFFS, APPARENT DISARRAY IN COMMON
MARKET, CONVICTION THAT EUROPEAN INTEGRATION NOT NOW
PROSPERING, AND DIMINISHED IDEOLOGICAL AFFINITIES WITH
EUROPEANS AMONG SOME KEY NEW FIGURES OF GOVERNMENT. INITIAL
INDICATIONS ARE THAT GOVERNMENT IS COMPENSATING
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O 291655Z MAR 74
FM AMEMBASSY MADRID
TO SECSTATE WASHDC IMMEDIATE 8527

C O N F I D E N T I A L SECTION 2 OF 2 MADRID 2051

E.O. 11652: GDS
TAGS: PINT, PFOR, ECON, SP
SUBJ: QUARTERLY TRENDS REPORT: SPAIN

B. TO COUNTER THE ECONOMIC SLOWDOWN, CREATE JOBS
AND KEEP REAL WAGES GROWING WILL REQUIRE MORE
EXPANSIONARY MEASURES THAN EVER BEFORE. THIS WILL FURTHER
FUEL INFLATION, ALREADY REACHING A LEVEL WHICH IS
DESTABILIZING IN MANY SECTORS--FROM HOUSEHOLD TO HEAVY
INDUSTRY. A MORE EFFECTIVE INCOMES POLICY MAY BE FORCED
ON THE GOVERNMENT, WHICH COULD GIVE RISE TO LABOR UNREST
AND ATTENDANT POLITICAL PROBLEMS. SHOULD FRANCO DIE
DURING THIS PERIOD OF RELATIVE ECONOMIC STRESS, STRAINS
THAT WOULD BE BROUGHT TO BEAR ON THE EXISTING INSTITU-
TIONAL STRUCTURE WOULD BE THAT MUCH GREATER.
C. FORD HAS BEGUN TO CONSTRUCT A MAJOR AUTOMOBILE
PLANT WHICH WILL REQUIRE THE COMPANY TO INVEST \$650
MILLION IN SPAIN OVER THE NEXT TWO YEARS. GENERAL

MOTORS DESIRES TO ENTER WITH SIMILAR SIZE INVESTMENT;
ALTHOUGH GOVERNMENT PERMISSION HAS NOT YET BEEN OBTAINED,
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IT SEEMS LIKELY THAT IT WILL NOT LONG BE WITHHELD. BY
WAY OF COMPARISON, NET FLOW OF US DIRECT INVESTMENT INTO
SPAIN OVER THE PAST TEN YEARS HAS BEEN \$740 MILLION.
THESE LARGE NEW INVESTMENTS WILL RAISE THE US BUSINESS
PROFILE IN SPAIN CONSIDERABLY AND WITH IT THE INCREASING
NEED TO TAKE THIS FACTOR INTO ACCOUNT WHEN FORMULATING
US POLICY TOWARD SPAIN.

D. PETROLEUM PRICE RISES WILL INCREASE SPAIN'S
FOREIGN EXCHANGE COSTS FOR SUCH IMPORTS BY AN ADDITIONAL
\$2 BILLION IN 1974. FORTUNATELY, NEAR \$7 BILLION
RESERVES (6TH LARGEST IN THE WORLD) WILL PERMIT ABSORB-
TION OF THIS ADDED BURDEN BETTER THAN IN MOST COUNTRIES.
THERE IS CONSIDERABLE CONCERN, HOWEVER, OF WHAT THE
SITUATION WILL BE IN 36 MONTHS' TIME WITH THE CURRENT
RATE OF RESERVE DRAWDOWN. LIKELY LESSER RATES OF
GROWTH IN EXPORTS, EMIGRANTS' REMITTANCES AND TOURISM
EARNINGS WILL NOT HELP THE SITUATION EITHER. MUCH
LARGER THAN NORMAL INFLOWS OF FOREIGN DIRECT INVESTMENT CAPITAL
AND GREATLY INCREASED FOREIGN BORROWING BY
STATE ENTITIES MAY REDUCE THE PROBLEM SOMEWHAT, ALONG
WITH INCREASING THE US PRIVATE SECTOR STAKE IN THE
COUNTRY.

4. INTERNATIONAL ECONOMIC AFFAIRS: ENERGY AND
EUROPEAN INTEGRATION.

A. SPAIN'S NON-INCLUSION IN THE ECG, EVEN THOUGH
LARGER VOLUME OIL IMPORTER THAN HALF OF THE GROUP'S
MEMBERSHIP, REAFFIRMS ONCE MORE ITS FEELING THAT IT
CONTINUES TO BE THE VICTIM OF UNJUSTIFIED ISOLATION FROM
INTERNATIONAL ACTIVITIES OF CONSEQUENCE. THAT THE
US WAS RESPONSIBLE FOR THIS AFFRONT DOES NOT HELP OUR
RELATIONSHIP NOR DOES WHAT THEY INTERPRET AS OUR
RELUCTANCE TO SHARE INFORMATION ON THE GROUP'S ACTIVI-
TIES. WHETHER THIS WILL HAVE ANY REAL EFFECT ON
MATTERS OF INTEREST TO US IS DIFFICULT TO SAY. IN ANY
CASE, AND NOT NECESSARILY RELATED, SPAIN SIGNED, ON
MARCH 21 A GOVERNMENT-TO-GOVERNMENT CONTRACT WITH IRAQ
FOR THE SUPPLY OF 28 MILLION METRIC TONS OF CRUDE OIL,
WHICH WOULD ASSURE 15 PERCENT OF ITS FUTURE (5YEAR)
IMPORT REQUIREMENTS.

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B. MORE AGGRAVATING TO THE GOS HAS BEEN THE EEC'S

INERTIA IN ADJUSTING AND AMPLIFYING PREFERENTIAL TRADE AGREEMENT WITH SPAIN. DELAY, WHICH RESULT OF POLITICAL AND ECONOMIC FACTORS, REINFORCES CURRENT GOVERNMENT'S INCREASING SKEPTICISM OF EUROPEAN INTEGRATION EFFORT WHICH HAD BEEN NUMBER ONE FOREIGN POLICY GOAL OF PREVIOUS ADMINISTRATIONS. SINCE ANY NEW SPAIN-EEC TRADE AGREEMENT WOULD ONLY INCREASE THE DISCRIMINATION AGAINST US TRADE (WHICH, SO FAR, IS NOT SO GREAT- \$20 MILLION TRADE DAMAGE IN 1972) US DIRECTLY BENEFITS FROM THIS SITUATION.

5. SPANISH-US RELATIONS

A. SPAIN NOW REEXAMINING ITS POSITION IN EUROPE, INCLUDING SOME OF ITS ASSUMPTIONS ABOUT VALUE OF INVOLVEMENT IN EUROPEAN INTEGRATION. IN THIS MOOD, SPANISH INCLINED TO GIVE EVEN GREATER IMPORTANCE TO THEIR RELATIONSHIP WITH THE US AS FUNDAMENTAL FOREIGN POLICY REFERENCE POINT AS EUROPEAN OPTION COMES INTO QUESTION.

B. THIS SITUATION OFFERS US AN OPPORTUNITY FURTHER TO INCREASE ITS INFLUENCE IN SPAIN AND IMPROVE ALREADY GOOD RELATIONSHIP AT SMALL COST. SPANISH HAVE SHOWED DISPOSITION TO COOPERATE CLOSELY ON BROAD RANGE OF INTERNATIONAL ISSUES, INCLUDING ENERGY. BUT IN PROCESS THEY EARNESTLY WANT TO CONSULT AND BE CONSULTED, AND TO BE TREATED BY US WITH SERIOUSNESS THAT THEIR STATUS AS MAJOR EUROPEAN POWER WOULD INDICATE. THIS INSISTENCE DOES NOT SEEM UNREASONABLE NOR SHOULD IT BE VERY COSTLY TO MEET. IT WOULD BE TO OUR ADVANTAGE, AND WE SHOULD BE ABLE TO FIND WAYS, TO APPEAL TO SPANISH PRIDE BY FREQUENT PERSONALIZED CONSULTATIONS ON SUCH ISSUES AS ENERGY AND BY MORE PERSONAL AND CANDID SHARING OF INFORMATION. MORE RECEPTIVE NEGOTIATING STANCE BY SPAIN ON BASES AGREEMENT COULD BE ADDED DIVIDEND FROM THIS APPROACH. ON THE OTHER HAND, IF THE US TREATS SPAIN WITH INDIFFERENCE, COUNTRY COULD SENSE ALIENATION FROM BOTH US AND EUROPE AND TURN INWARD WHILE MOVING TOWARD ATTITUDES AND POLICIES OF THE EARLY FRANCO YEARS.

RIVERO

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